



# Fundamentals of Income Tax for Estates and Trusts

## Part I

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Tax Forms and Publications

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# Trusts – General Types

- Inter vivos
- Testamentary
- Revocable
- Irrevocable
- Foreign
- Domestic



# Simple vs. Complex

- Simple
  - All trust accounting income required to be distributed annually
  - No charitable contributions
  - No distributions of corpus
- Complex

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# Hybrid Taxation

- All income taxed to estate or trust
- All income taxed to beneficiaries
- Income taxed at both levels



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# Special Tax Treatment

- Grantor trusts
- Electing small business trust (ESBT)
- Qualified subchapter S trust (QSST)
- Qualified disability trust
- Qualified revocable trust

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# Special Tax Treatment

*(continued)*

- Qualified funeral trust (Form 1041-QFT)
- Alaska native settlement trust (Form 1041-N)
- Bankruptcy estate
- Multiple trusts treated as single trust
- Separate share rule
- Accumulation distributions



# Unique Tax Issues

- Income distribution deduction
- Distributable net income (DNI)
- Income in respect of a decedent (IRD)
- Depreciation (but no section 179 deduction)
- Charitable deduction





# Unique Tax Issues

*(continued)*

- Credits — not all can be allocated to beneficiaries
- Holding period for estates — always long-term
- Estimated tax allocation
  - Form 1041-T
  - File by 65<sup>th</sup> day after close of year





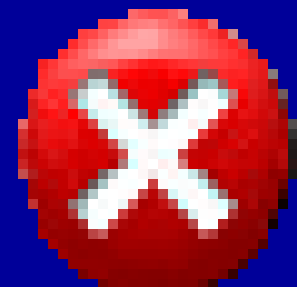
# Filing Requirements

- Decedent's estate
  - Gross income — \$600 or more
  - Nonresident alien beneficiary
  - Choose any tax year
- Trusts
  - Gross income — \$600 or more
  - Nonresident alien beneficiary
  - Generally, must be calendar year

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# Common Form 1041 Errors

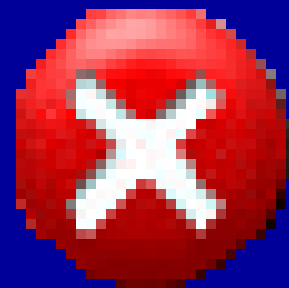
- Filing Schedule K-1 for a grantor trust
- Not attaching Schedule K-1 when required
- Passing through losses before final year
- Wrong exemption amount
- Claiming medical and funeral expenses
- Allocating expenses incorrectly



# Common Form 1041 Errors

*(continued)*

- Passing through income tax withholding (other than backup withholding)
- “In care of” address entered incorrectly
- Not recognizing the requirement to file Form 706-GS(D-1) or 706-GS(T) when the answer to Question 9 on page 2 is “Yes”



# Additional Resources

- **Form 1041**, *U.S. Income Tax Return for Estates and Trusts*, and instructions
- **Form 1041-A**, *U.S. Information Return – Trust Accumulation of Charitable Amounts*
- **Form 1041-ES**, *Estimated Income Tax for Estates and Trusts*
- **Form 1041-T**, *Allocation of Estimated Tax Payments to Beneficiaries*
- **Pub. 559**, *Survivors, Executors, and Administrators*
- **E-mail comments:** [\\*taxforms@irs.gov](mailto:*taxforms@irs.gov)  
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